

# **Memorandum**

California Public Employees' Retirement System

Date: November 30, 2005

From: Christy Wood,

Senior Investment Officer, Global Equity

Subject: October 13, 2005 Meeting with ABB - Sudan Activities

(The following summarizes remarks made by representatives of ABB.)

## **Investor Attendees:**

Bill Atwood – Executive Director Illinois

Mark Anson – Chief Investment Officer, CalPERS Christy Wood – Senior Investment Officer, CalPERS Don Kirshbaum – Investment Officer-Policy, Connecticut

Treasurer's Office

Susan Sweeny - Chief Investment Officer, Connecticut

Treasurer's Office

Shelagh McClure - Compliance Officer, Connecticut

Treasurer's Office

Julie Gresham – Assistant Comptroller, New York State

Comptroller's Office

#### ABB Attendees:

Gary Steel – Vice President, Member of the Group Executive

Committee

Ron Popper – ABB Group Corporate Communications, Corporate

Social Responsibility

Bruce Talley – Public Affairs, ABB Washington

Anders Nordstrom - ABB Sustainability Affairs, Africa

**Specialists** 

John Chironna – Head of ABB Investor Relations, US

Trina Foster – Head of ABB Corporate Communications, US

Professor Alan Miller – Non-ABB, independent Advisor, Director McGrigor Rights (International Human Rights

Consultancy)

## Overview of Business Activities

ABB provided an overview of ABB's philosophy pertaining to its business in Sudan. They believe they are a force for good and a company that is "human rights aware." They believe things are improving in Sudan and that it is not the time to withdraw. ABB provides electricity in Sudan which is directly correlated to improvement in standards of education and health care.

ABB's work in Sudan is limited to power transmission from a dam at Merowe to Khartoum, Port Sudan and a resort on the Nile. They also sell flow control systems in the Heglig oil field in the south of the country. They also sell low-voltage products through distributors. Currently ABB has only one employee on the ground in Sudan. They have no capital invested in the Sudan. On the Merowe Dam project the customer is the National Electricity Corporation. The customer in the Heglig oil fields is the Greater Nile Petroleum Operation Company. Both of these customers involve the Sudan government. ABB has no operations or involvement in Darfur.

## Overview of Peace Prospects

ABB believes there has been considerable progress over the past year in the North /South conflict in spite of setbacks. A Comprehensive Peace Agreement (CPA) was signed in January of 2005 ending a 21 year civil war. CPA splits oil revenues, government posts and jobs between the North and South. The new government was sworn in in September 2005 and was delayed by the death of John Garang. Considerable work remains to implement the CPA. In Darfur where ABB does not operate there are signs of progress amid continuing violence. Positive signals include a first round of peace talks in Abuja, Nigeria taking place in October, 2005. African Union and U.N. Peacekeepers on the ground and the International Criminal Court is investigating war crimes.

ABB is engaging in a Sudan stakeholder dialogue. ABB contends that Amnesty International Business Group recommends that companies doing business in sensitive countries should not withdraw. This could not be confirmed by staff's calls to Amnesty International. ABB is organizing a stakeholder forum in Khartoum in November to include the Sudanese government, non-governmental organizations (NGO's), the United Nations and the British Council. In addition, ABB says they are engaging the Sudanese government, the Ministry of Labor, Investors and the Business Leaders Initiative on Human Rights (BLIHR). ABB states that none of the stakeholders on the ground have called on ABB to halt its business activities or withdraw from Sudan.

### Conclusion

ABB says there are signs of progress. They cite that courts are beginning to hold people accountable for genocide. In addition, within the next few months there will be a Human Rights Commission established as well as an International Court Prosecutor to report to the U.N. Further, ABB's case is that mere presence does not make them complicit in human rights abuses.

## Follow-up

Staff requested additional detail on ABB's dialogue with NGO's such as "Save the Children," CARE," "Amnesty International" as well as their local independent sources that ABB contends support ABB's on-going presence in Sudan. ABB replied that these meetings were held between August 20-23 and October 1-4 in Khartoum with NGO's, United Nations officials, other companies and diplomats. ABB could provide details but stated that these conversations are very sensitive in nature and that they will keep us abreast of the progress of a stakeholder forum set to take place in the first quarter of 2006. Staff contacted Amnesty International and was not able to confirm such meetings or that Amnesty International supported ABB's ongoing presence in Sudan.



# <u>Memorandum</u>

California Public Employees' Retirement System

Date: December 1, 2005

From: Mark Anson

Chief Investment Officer

Subject: November 21, 2005 Meeting with Alcatel – Sudan Activities

(The following summarizes remarks made by representatives of Alcatel.)

Attendees - Alcatel:

Serge Tchuruk, Chief Executive Officer

Attendees - CalPERS:

Mark Anson, Chief Investment Officer

# **Background**

Alcatel is a global communications company. It develops and integrates technologies, applications and telecomm services around the world. It generates revenues from the fixed land line, mobile, and specialized communications (video, fiber optics, and cable) markets. It also provides broadband wireless services, video software applications and satellite telecommunications.

It operates in 130 countries and has a workforce of 56,000. Its 2004 revenues were 12.3 billion Euros—about \$14.8 billion.

# Alcatel's Operations in the Sudan

Alcatel's business revenues from the Sudan are approximately 50 million euros or about \$60 million USD. This represents 0.4% of Alcatel's total revenues.

Alcatel employs 52 people in the Sudan, less than 0.1% of its total workforce.

Alcatel has contracts with Petrodar, BTCL, and Sudatel to provide hardware and labor to install the hardware for telecommunication facilities.

Sudatel is 26% owned by the Sudanese government, while Petrodar is jointly owned by PetroChina and the Malaysian national petroleum company. BTCL (British Telecom) is independent of the Sudanese Government.

Alcatel has not made an investment in the Sudan, it only sells hardware and provides employees to integrate the hardware for clients.

Alcatel does not have any business relationship with the Sudanese Government, although it does have a hardware contract with Sudatel, which is partly owned by the Sudanese Government.

Alcatel is not taxed on its hardware sales by Sudan, but is taxed on the services it provides to install the hardware. The tax rate is approximately 5%.

Alcatel has no plans to invest its capital in the Sudan to build plants or facilities. Its involvement is strictly due to providing hardware and services to install the hardware.

### Alcatel's Ethics Policies

Alcatel has a 16 point Statement of Business Practices that provide explicit guidance for the ethical conduct of its employees. Of particular interest is Statement #11:

Alcatel will support and respect, with its sphere of influence, the protection of international human rights set out in the United Nations' Universal Declaration of Human Rights, the International Labor Organization's fundamental conventions and the Global Compact. In particular, the Company supports the effective elimination of all forms of compulsory labor and child labor as defined by the ILO. It will make this a criterion in the management of its suppliers and sub-contractors.

When asked whether their sphere of influence could extend to the Sudan, they agreed that it could. More concretely, Alcatel agreed to perform a formal review of its business operations in the Sudan through its Ethics Committee to see what more Alcatel can do.

## Alcatel's Position

Alcatel does not do business directly with the Sudan Government, and believe that they do not have any influence with the Government. However, Alcatel believes that one way that it can help to bring the bloodshed of Sudan to light is through better communication both within the country and with the outside world.

Alcatel's business in the Sudan is a tiny fraction of their overall business. Nonetheless, they feel frustrated at not being able to do more in the Sudan. Yet, when asked whether they had been contacted by Amnesty International or other Human Rights organization, they could not answer definitively. Consequently, they agreed to perform a formal review through their Ethics Committee to see if there is a way to provide better assistance to stop the genocide in the country.



Date: November 17, 2005

From: Dennis A. Johnson, CFA

Senior Portfolio Manager, Corporate Governance

Subject: November 17, 2005 Meeting with Royal Dutch Shell (RD) – Sudan Activities

(The following summarizes remarks made by representatives of RD.)

Royal Dutch Attendees: Jeroen van der Veer, Chief Executive Royal Dutch Shell

Honore Dainhl, Senior Regional Advisor Sub-Saharan Africa David T. Lawrence, Executive Vice President Investor Relations

<u>Attendees – CalPERS:</u>

Dennis Johnson, Senior Portfolio Manager, Corporate

Governance

#### Introduction

The meeting began with a brief overview of why the Sudan initiative is important. Reference was made to the fact that CalPERS is acting both as a member of a coalition of large U.S. institutional investors and on direction from its Investment Committee. It was also stated that the CalPERS Board will receive an update report on Sudan at the December Board meeting.

## Sudan-Strategy Review

Mr. Honore Dainhl discussed Royal Dutch's (RD) strategic position and initiatives in Sudan. Sudan is statistically insignificant in the RD business portfolio. There are 130 employees in Sudan compared to approximately 12,000 in total in Africa. RD's primary business activity in Sudan is the operation of fuel service stations. Oil distributed through their service stations is imported through Port Sudan. There are 42 service stations in Sudan versus 3000 throughout Africa. RD's Sudan business does not produce a profit. There are no growth initiatives in place or being considered for Sudan at this time. If conditions were to materially improve, RD could become interested in investing in Sudan.

Royal Dutch has been selling its assets in Sudan. The refinery business was sold in 1992. The chemicals business was sold shortly thereafter. RD's Liquefied Natural Gas (LNG) business was sold in 1994. The aviation fuel business was recently sold to Petronas.

The question was raised to RD about the prospects of Sudan having the potential to produce oil at levels comparable to Nigeria over the next 5-10 years. RD indicated that their external sources on the subject are not providing information or data that would support that outlook.

Mr. van der Veer indicated that they do not own equity in Chinese energy companies doing business in Sudan. He also indicated that in the course of business, their country manager meets with Sudan's Minister of Energy. These meetings represent an opportunity to communicate RD's position on the importance of having and abiding by the right business principles. RD will only operate in those countries where it can function under its publicly stated business principles and guidelines.

The question was raised about selling the remaining assets in Sudan. RD indicated that they have not considered this. In addition, they pointed out that there are fifteen countries in Africa with an asset base smaller than Sudan. Leaving Sudan could lead to the suggestion of RD getting out of most of Africa.

## **Humanitarian Activity**

Mr. van der Veer stated the importance of understanding how tough life is for people living in Sudan. He suggested that it could be devastating to the people of Sudan if RD were to leave. However, he does recognize the importance of balancing the interest of RD constituencies which obviously include shareowners.

Their decision to sell the aviation fuel business was an example of their sensitivity to humanitarian efforts. When RD realized their only customer for aviation fuel had become the Sudan military, the business was sold to Petronas.

A UK Commission visited Sudan and RD was noted as an example of an entity with good human rights policies and practices. RD provided human rights training to a group meeting in London from Sudan. RD is not directly or indirectly engaging the political leadership in Sudan to address conditions there.

## Closing

Mr. Honore Dainhl indicated that he is from Africa and stated the problem with companies not understanding that they do not improve conditions by leaving a country. He indicated that there are many examples of life not being the same when companies withdraw from a country. If there is a new owner of the assets, they are inferior in every way from the point of view of the local people. If the assets are withdrawn or abandoned, local people suffer even more. Mr. Dainhl stressed the importance of Westerners distinguishing the difference between the political leadership and the people of Sudan when considering strategies to effect change. In his opinion, the worst is behind the people of Sudan. He notes the Peace Agreement, the Government reconciliation and the formation of the National Commission whereby the President of North Sudan and leader of South Sudan serve as President and Vice President, respectively. Mr. Dainhl also stated that he does not have any visibility into conditions getting better in Sudan.

Mr. van der Veer stated that he concurred with Mr. Dainhl. Divestment is a western way of addressing problems with which he philosophically disagrees. He thinks about the personal implications of divestment. Mr. van der Veer also stated that there are no assurances that business principles and human rights will improve in Sudan if RD completely leaves the country.

He closed by stating that RD will continue to emphasize the need for the existence of good business principles in Sudan. He wants RD to promote the principles of sustainable development in Sudan. The existence and reinforcement of assurance procedures will continue to govern how RD personnel conduct business in Sudan.



Date: December 5, 2005

From: Dennis A. Johnson

Senior Portfolio Manager-Corporate Governance

Subject: December 5, 2005 Conference Call with Siemens – Sudan Activities

## **Investor Attendees**:

Dennis Johnson – Senior Portfolio Manage, CalPERS Julie Gresham – Assistant Comptroller, New York State

Comptroller's Office

Meredith Miller – Assistant Treasurer of Policy, Connecticut

Treasurer's Office

Lee Gresham – Vermont State Treasurer's Office

Phillip Larrieu – Associate Investment Officer, Corporate

Governance, CalSTRS

## Siemens Attendees:

Heinz-Joachim Neuburger, Chief Financial Officer

Marcus Desimoni – Treasurer

Christine Schmoe – Investor Relations Manager

A conference call was held today between Heinz-Joachim Neuburger, Chief Financial Officer for Siemens and representatives of five public funds. Public funds represented on the call included CalPERS, New York State Comptroller's Office, State Treasurer of Vermont, State of Illinois, and Connecticut Treasurer's Office.

## Siemens' Business in Sudan

Mr. Neuburger stated that Siemens' business in Sudan is insignificant relative to the entire business portfolio. Annual sales from Sudan are approximately 28 million euros compared with 75 billion euros in annual revenues for the total company. Siemens' business is conducted from a representative office in Khartoum. There are three permanent full time employees that manage the Sudan representative office. This group of individuals has been with the company since 2003. When necessary, management will hire temporary workers. The maximum number of workers Siemens has utilized for project employment is approximately 40. Siemens has control systems in place to insure employee safety and manage the potential risk of employees engaging in inhumane activities. These controls include background checks and having close contact with employees on a weekly basis.

Siemens has two lines of business in Sudan. They are the telecommunications equipment and medical technology businesses. The medical technology business includes the sale of products such as ultrasound devices. Medical equipment is sold to hospital and health organizations in Sudan. Mr. Neuburger indicated that Siemens will provide a client list in order to see who they are directly doing business with in this business segment. Given the fragile nature of the Sudan economy, it is possible that these clients will include municipal/government related facilities.

The telecommunications equipment business involves the sale of product to Vodafone and Sudan Telecom. Sudan Telecom is a government controlled entity. As with the medical technology business, Mr. Neuburger has offered to make a client list available to show who Siemens is directly doing business with in this business segment.

Siemens has limited capital invested in Sudan given that it operates out of a representative office with three permanent employees. Approximately \$130,000 in business taxes are paid annually to the Sudan government.

## **Humanitarian Efforts**

Mr. Neuburger indicated that during his thirty years with Siemens, he has worked in Sudan. The experience of living and working in Sudan allows him to be highly sensitive to employees and their families in Sudan. In his opinion, being active in Sudan may have a positive impact on conditions there. Leaving Sudan may cause more damage to the country, Siemens employees and their families.

Siemens has a global corporate policy of not getting politically involved in countries where they conduct business. Therefore, Siemens does not have a Sudan specific policy. It was suggested that they are engaged in "back-channel" discussions with various parties trying to positively effect change in Sudan. It was also suggested that the former Soviet Union and China are not being supportive of efforts to solve the problems in Sudan.

## Financial Disclosure

Mr. Neuburger started his closing remarks by stating that Siemens is cooperating with a Securities & Exchange Commission inquiry about its business in Sudan and other countries. He stated that Siemens is cooperating fully, but that the level of business activity with each of these inquiries is below the materiality threshold required for public disclosure. Nonetheless, Siemens is cooperating fully and providing disclosure on the subject. The Siemens 20F (equivalent of 10K and Annual Report, required of non-US companies with stocks trading in the United States) will contain information related to the SEC inquiry, and Siemens' business activities in Sudan and other countries that are part of the inquiry. The 20F should be available within the week.



# **Memorandum**

California Public Employees' Retirement System

Date: November 30, 2005

From: Christy Wood

Senior Investment Officer, Global Equity

Subject: November 23, 2005 Meeting with Total – Sudan Activities

(The following summarizes remarks made by representatives of Total.)

Attendees - Total:

Robert Castaigne, Chief Financial Officer

Jean-Francois Lassalle, Vice President, Exploration and

Production

Jerome Schmitt, Vice President, Investor Relations

Eve Gautier-Roux, Investor Relations

Attendees - CalPERS:

Christy Wood, Senior Investment Officer, Global Equity

#### Introduction

Total conducted exploration activities in Sudan in 1983 and 1984. When civil war broke out they suspended all exploration in 1985. Presently, they have a 32.5% interest in Block B in the southern portion of Sudan but there is no activity or business being conducted there at this time. This area is very large (about the size of Greece) and is basically swamp land that has not been developed. When Total saw a peace agreement evolving in 2003 they took steps to prepare to return to exploration activities in Block B. Their partners are Marathon Oil (32.5%), Kufpec (25%) and Sudapet (10%) The Sudan National Oil Company. Total's rights to engage in exploration in Block B are currently disputed by a United Kingdom company White Nile which recently announced it had been awarded a license on the same area. None of Total's current revenues come from Sudan.

#### **Current Plans**

Total says that the United Nations is currently "de-mining" the access roads to Block B and that by March 2006 they plan to resume seismic exploration. Drilling in Block B would potentially begin in 2007. They have one office in Khartoum with one representative. They are currently also trying to rehabilitate the base camp in Bor that

has been dormant for 20 years. Any activities would include local people and would be preceded by experts and physicians to assess local impact.

#### Total's view of their planned activities in Sudan

Total prides itself in its ethics and sustainable development practices. They cite two organizations that support their planned activities. One is "ECOS, "the" European Coalition on Oil in Sudan" which is a European group of non governmental organizations (NGO's) and "CDA" which is the "Collaborative for Development Action" a conflict resolution entity which supports ethical development of underdeveloped nations. Staff's calls to these entities were not successful.

Total states that they will not have revenues attributable to Sudan for 6 years.

Total justifies their planned activity in Sudan in making the following points:

- 1) The United Nations is currently 'de-mining' the roads in Block B to provide for exploration and eventual production they say everyone is working closely with the U.N.
- 2) Total has a long history of ethical and sustainable development of underdeveloped nations.
- 3) No production would be carried out without an impact study.
- 4) They have a positive history of not pulling out of South Africa in the 80's and were glad in the 90's they stayed. They believe they were a positive force throughout this period.
- 5) Any revenues from the Block B eventual production that go to the Sudan government (via Sudapet) would be subject to the "EITI" or "Extractive Industry Transparency Initiative" which controls where the revenues are directed. This would ensure they not be misdirected or misused.
- 6) Total doesn't operate in the Darfur region where the atrocities are predominantly occurring.